DAILY ANALYSIS REPORT

Thursday, May 20, 2021

Gold rally is capped due to recovery in Dollar and bond yields

Change in weather forecast to keep NG prices under pressure

GOLD RALLY IS CAPPED DUE TO RECOVERY IN DOLLAR AND BOND YIELDS

- Gold prices climbed to their highest level in four months as they touched $1,891.25 yesterday, supported by growing US inflationary pressure; however, recovery in the US dollar index capped the gains. Also, US treasury yield rallied after a hawkish tone from Federal Reserve policymakers when they hinted at a possible shift in future policy.
- Gold is trading near $1,871 which is sharply higher from the March'21 low of $1,673.30, however prices fell back from a recent high after the dollar index bounced to 90.12 after registering a low of 89.68 yesterday, also US 10 year bond yield recovered, and is sustaining near 1.666 from the recent low of 1.469 registered on May 7th.
- Last fed meeting minutes suggest that some Fed members favoured talk of tapering asset purchases at upcoming policy meetings, which is likely to reduce liquidity in the system and is negative for gold prices.
- Also, St. Louis Fed President Bullard said that the US has a "big economic boom going on," and he wouldn't be surprised if the U.S. 2021 GDP estimate of 6.5% is raised, these comments were negative for gold prices.
- On the economic data front, Japan's March industrial production revised downward at 1.7% m/m from the previously reported +2.2% m/m which is positive for gold. However positive economic data from Eurozone is likely to reduce safe-haven demand for gold. EU Apr new car registrations surged +218.6% y/y to 862,000 which is indicating robust economic activity in the Eurozone.
- Eurozone CPI report was also negative for gold demand after The Eurozone Apr core CPI was revised slightly lower to +0.7% y/y from +0.8% y/y. A drop in inflation reduces gold demand which is used as a hedge against inflation.

Outlook

- Gold prices are likely to face stiff resistance near $1,908-$1,926 however it may find an immediate support level around $1,857-$1,819

CHANGE IN WEATHER FORECAST TO KEEP NG PRICES UNDER PRESSURE

- Natural Gas June month expiry contract is trading near $2.974 which is sharply lower from a recent high of $3.150 registered on May 17th Weakness in US domestic demand and increase in production is keeping gas prices under pressure. However, weather forecast for above normal temperature is likely to increase gas prices which are used for electricity production for in air-conditioning.

- Weather data agency Maxar is forecasting above-normal temperatures in the Mid-Atlantic from May 24-28. However, Maxar also forecasts a milder weather outlook for the central U.S. during the Memorial Day holiday weekend May 28-31 which may cap gas prices.
- On the domestic demand front, Bloomberg data suggests that natural gas demand in the US on Wednesday fell -3.4% y/y to 57 bcf. Also, US gas production on Wednesday was up +5.6% y/y at 90.06 bcf/d, both data points are negative for NG prices.
- However, export demand is likely to support gas prices. As per Bloomberg data, Gas flows to export terminals on Wednesday rose +66% y/y to 10.3 bcf. Also, US electricity output in the week ended May 15 rose +4.5% y/y to 69,058 GWh (gigawatt hours), which is likely to support gas prices.
- Natural Gas prices are likely to get fresh direction from the weekly inventory report which is scheduled for later today. The consensus is for gas inventories to climb +59 bcf, below the 5-year average of +85 bcf. As of the previous report, gas inventories were down -16.2% y/y and -3.4%.
- Meanwhile, Baker Hughes reported that the number of active US Gas drilling rigs in the week ended May 14 fell by -3 rigs to 100 rigs. Active Gas rigs provide an early indication of US production levels.

Outlook

- Natural Gas prices are likely to face stiff resistance around $3.088-$3.160 while it may find immediate support around $2.890-$2.763

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Prepared by:
Mr. Kamlesh Jogi | Market Research Analyst
email: kamlesh.jogi@abans.co.in
Phone: +91 22 68354176 (Direct)

Abans Broking Services (P) Limited
36, 37, 38A, 3rd Floor, 227 Nariman Bhavan, Backbay Reclamation, Nariman Point, Mumbai-400 021
Phone +91 22 61790000 | Fax +91 22 61790000
Email: info@abans.co.in | Website: www.abans.co.in

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